



CCM 2012 Testimony

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LABOR & PUBLIC EMPLOYEES COMMITTEE

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The Connecticut Conference of Municipalities (CCM) is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members represent over 90% of Connecticut's population. We appreciate the opportunity to testify on bills of interest to towns and cities.

House Bill 5400 "An Act Concerning the Municipal Employee Retirement System Contribution Rate"

Good afternoon, my name is Tom Landry, Town Administrator of Weston and Connecticut Municipal Liaison to the State Employees Retirement Commission. Thank you for today's hearing. HB 5400 is supported by the CCM and the Connecticut Council of Small Towns. I appear today on their behalf.

CCM supports HB 5400 as it would address local officials' concerns about the disparity between the contributions rates within the Municipal Employee Retirement System (MERS) by increasing the employee contribution rate for non-social security participants from 5% to 8% over time. HB 5400 would also increase the contribution rate for Social Security participating employees from 2.25% to 8% -- *CCM respectfully asks the Committee to amend this section so this rate is increased to only 5%.*

The need for this legislation is simple. **The employee - employer contribution rates have become severely unbalanced over the past decade, and only the Legislature itself can correct that problem.** The Legislature has empowered the State Employees Retirement Commission to alter employer contribution rates. Dictated by increased demand on the MERS Fund, the Commission has exercised that authority often, and has increased the employer contribution share nine times in the past eleven years. Only the Legislature, however, can change the employee contribution rate.

This bill will allow for long overdue changes in the contribution rate for employees covered by the MERS pension system. By doing so, it will provide needed stability to the system's financial outlook.

BURDEN of RISING CONTRIBUTION RATES:

- In 2002, the Town contribution for non-public safety personnel was **2.75%**. In July, it will be **11.76%** (**427 % increase**).
- In 2002, the Town contribution for public safety personnel was **3.75%**. In July it will be **16.65%** (**444 % increase**).
- In 2002, the employer-employee contribution rate was **55% municipality/45% employee**. In July, it will become **84% municipality/16% employee** for non- public safety employees.
- For Police and Firefighters, the contribution ratios were **62%/38%** in 2002. This will become **88/12%** as of this July.

- From 2002 through 2011, **MERS contribution rates have increased four and a half times faster than did Weston's health insurance costs (444% to 98%).**
- **MERS now constitutes 6.98% of the Town's operating budget. In FY2002-03 it was 2.44%.**

MERS FINANCIAL STABILITY:

- Extensive benefit enhancements in MERS were adopted by the Legislature in 2001. These include a reduction in the vesting period from 10 years to 5, and an increase in the annual service award from 1.167% per year of service to 1.5%. **Despite significant plan enhancements, employee contribution rates did not change.**
- MERS funding tables presume an 8.25% annual market return on investments. The past two years the Fund did very well, earning 12.98% in 2010 and 17.65% in 2011. However, even with great earnings, and a 40% increase in the employer contribution rate over those years, **the MERS portion of funded liability actually decreased slightly.** The Fund went from 88.9% funded in July 2009, to 88.4% in July 2010, and 88.3% in July 2011. **The Fund appears unsustainable in its present configuration.**
- **The surge in MERS contribution rates has come at the same time that municipalities were required by GASB rulings to fund their Other Post Employment Benefits (OPEB) liabilities.** In many MERS participating communities, there is substantial unfunded liability for retiree health benefits which must be OPEB funded. In our case that is about \$2 million. This additional funding requirement, coupled with the large MERS increases, has proved to be quite difficult on our municipal budget.

OTHER PROVISIONS of HB 5400:

The contribution rates called for in **lines 9 and 10 of the bill should be amended** – as they incorrectly combine the contribution rates for social security participating employees with those for non-social security employees. From an actuarial perspective, two separate rates should be maintained. Furthermore, **lines 96-102** offer an alternative total cost share proposal, to the current practice of fixed employee contribution rates. This alternative sets the cost sharing at 60% employer and 40% employee. In 2002 it worked out to 55-45. Regardless of the ratio, **HB 5400 should also be amended to specify how a community would pick the percentage share option over the pre-defined employee contribution rates.** New language should clearly state whether this is employer option, or if it needs to be negotiated – it should also indicate if this is an irreversible, one time election.

By any reasonable measure, Towns participating in MERS have absorbed a considerable burden in the past decade as the numbers below indicate. This has directly contributed to a reduction in town services and actual layoffs in order to meet this obligation. **The ratio of retirement cost burden has skewed tremendously onto the municipality in the last decade, and this imbalance can only be corrected through Legislative action.** One immediate form of action is to increase the participating employee contribution rate, which HB 5400 would achieve.

CCM urges the Committee to *amend HB 5400 as recommended above*, and to **favorably report the bill.**

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If you have any questions, please contact Bob Labanara, Senior Legislative Associate of CCM
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